

AGENDA — February 22, 2000 Business Taxes Committee Meeting
Proposed Revisions to Audit Manual Chapter 7, Reaudit Reports and Revised Audit Reports

Action 1 — Consent Item(s) Revisions to Audit Manual Chapter 7	Adopt staff's proposed revisions to Audit Manual Chapter 7.
Action 2 — Authorization to Publish	Direct the publication of the proposed revisions to Audit Manual Chapter 7 as adopted in the above action. Operative Date: None Implementation: Upon Board approval

AGENDA — February 22, 2000 Business Taxes Committee Meeting
Proposed Revisions to Audit Manual Chapter 7, Reaudit Reports and Revised Audit Reports

Action Item	Staff's Proposed Revision
Action 1 — Consent Item(s) Revisions to Audit Manual Chapter 7	Refer to Exhibit 2 for revised text.

Issue Paper Number 00 - 001



- ☐ Board Meeting
- ☒ Business Taxes Committee
- ☐ Customer Services Committee
- ☐ Legislative Committee
- ☐ Property Tax Committee
- ☐ Technology and Administration Committee
- ☐ Other

PROPOSED REVISIONS TO AUDIT MANUAL CHAPTER 7, *REAUDIT REPORTS AND REVISED AUDIT REPORTS*

I. Issue

Should revisions to Chapter 7, *Reaudit Reports and Revised Audit Reports*, be incorporated into the Sales and Use Tax Department's Audit Manual?

II. Staff Recommendation

Staff recommends that the proposed revisions be incorporated into Chapter 7 of the Audit Manual, as illustrated in the attached draft of Chapter 7 (Exhibit 2).

III. Other Alternative(s) Considered

Make no changes to Audit Manual Chapter 7.

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IV. Background

The Audit Manual (AM) is the State Board of Equalization's (Board) guide for conducting sales and use tax audits. The thirteen chapters contained within the AM incorporate procedures and techniques that have evolved over the years and have been proven to be sound and practical. Field auditors are required to carefully study these procedures and techniques in order to ensure that audits are conducted, and reports are prepared, in a clear and uniform manner consistent with approved audit policies and procedures.

An "audit report" is a formal written report from an auditor of the findings and recommendations after the completion of an audit. When an audit report is prepared, it is based on the best and most accurate information available to the auditor at that time. There may be instances after an audit report has been submitted that changes to the original findings are needed. When a change is warranted, either a revised audit or a reaudit report is prepared. A revised audit report is used to make adjustments to an audit after the Report of Field Audit has been sent to the taxpayer but before the Notice of Determination (billing) has been issued. A reaudit report is used to make adjustments to an audit after both the Report of Field Audit and the Notice of Determination have been issued. Chapter 7, *Reaudit Reports and Revised Audit Reports*, last revised in October 1997, provides comprehensive instruction on the completion of these reports.

The proposed revisions to Chapter 7, *Reaudit Reports and Revised Audit Reports*, of the AM that are recommended for adoption by the Business Taxes Committee will reflect Board-wide policy. Therefore, other departments will implement the proposed revisions adopted by the Board unless program-specific statutes, regulations, or Board decisions take precedence.

Discussion – Proposed Revisions to Chapter 7

Technological Advancement

In 1999, the Board completed the phase-in of its new integrated computer information system. This system integrates tax program applications within a corporate database environment to facilitate the administration, collection, and disbursement of taxes. As a result of this implementation, procedural changes were necessary in all areas of operations, including reaudit and revised audit reports. Proposed revisions to Chapter 7 incorporate forms and reports updated for changes in computer information processing and guidance in the preparation of these reports.

Use of BOE-624A/B, *Assignment Activity Record* (AM Section 0704.25)

A new section, section 0704.25, has been proposed to incorporate the provisions of Operations Memo 1037, *Assignment Activity Record*, as it pertains to revised and reaudit reports. Introduced in 1996, the

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Assignment Activity Record provides a chronology of all events that take place during the course of an audit assignment and facilitates the monitoring of assignments in process.

The threshold levels established for supervisors and management to periodically review the progress of an assignment do not apply to revised or reaudit assignments originating in the Petitions or Refund Sections. These sections have their own procedures and response times for submitting assignments and status reports; field staff must adhere to the timeframes established by these sections. The *Assignment Activity Record* provides the mechanism to monitor response times and record significant events during the course of the assignment.

Other Significant Changes

In addition to the changes resulting from implementation of the new integrated computer information system, terminology has been updated and existing procedures have been incorporated into the chapter. Also, expanded information is provided on the filing requirements for petitions for redetermination and claims for refund. All chapter exhibits have been updated to reflect the proposed changes.

V. Staff Recommendation

A. Description of the Staff Recommendation

Staff recommends that the proposed revisions be incorporated into Chapter 7 of the Audit Manual, as illustrated in the attached draft of Chapter 7 (Exhibit 2).

B. Pros of the Staff Recommendation

- Provides consistency with current policies and procedures.
- Provides guidance to auditors in the preparation of Sales and Use Tax reaudit and revised audit reports.

C. Cons of the Staff Recommendation

None.

D. Statutory or Regulatory Change

No statutory or regulatory change is required.

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E. Administrative Impact

None. Auditors are preparing reaudits and revised audits based on current policies and procedures. The proposed revisions will make the Audit Manual consistent with current policies and procedures.

F. Fiscal Impact

1. Cost Impact

None.

2. Revenue Impact

None.

G. Taxpayer/Customer Impact

Consistent preparation of reaudit and revised audit reports is expected to improve taxpayer/customer relations.

H. Critical Time Frames

None.

VI. Alternative 1

A. Description of the Alternative

Make no changes to Audit Manual Chapter 7.

B. Pros of the Alternative

None

C. Cons of the Alternative

Audit Manual Chapter 7 would not be consistent with current policies and procedures.

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D. Statutory or Regulatory Change

None.

E. Administrative Impact

None.

F. Fiscal Impact

1. Cost Impact

None.

2. Revenue Impact

None.

G. Taxpayer/Customer Impact

None.

H. Critical Time Frames

None.

Prepared by: Program Planning Division, Sales and Use Tax Department

Current as of: February 11, 2000



PROPOSED REVISIONS TO AUDIT MANUAL CHAPTER 7, *REAUDIT REPORTS AND REVISED AUDIT REPORTS*

Staff Recommendation

Staff recommends that the proposed revisions be incorporated into Chapter 7 of the Audit Manual, as illustrated in the draft of Chapter 7 (Exhibit 2 of the issue paper).

Background, Methodology, and Assumptions

There is nothing in the proposed revisions to Chapter 7 of the Audit Manual that would impact revenues.

Revenue Summary

The staff recommendation has no revenue effect.

Preparation

This revenue estimate was prepared by David E. Hayes, Statistics Section, Agency Planning and Research Division. This revenue estimate was reviewed by Ms. Laurie Frost, Chief, Agency Planning and Research Division and Ms. Freda Orendt-Evans, Program Planning Manager, Sales and Use Tax Department. For additional information, please contact Mr. Hayes at (916) 445-0840.

Current as of January 27, 2000

AUDIT MANUAL

Chapter 7

Reaudit Reports and Revised Audit Reports

Sales and Use Tax

~~Use Fuel Tax~~

~~Department of Business Taxes~~

Sales and Use Tax Department



CALIFORNIA
STATE BOARD
OF EQUALIZATION

JANUARY 2000

CHAPTER 7

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Chapter 7

REAUDIT REPORTS AND REVISED AUDIT REPORTS

0700.00

INTRODUCTION

0701.00

GENERAL

0701.05

Audit reports and field billing orders are prepared on the basis of the best and most accurate information disclosed or made available to the auditor. As discussed in Chapter 2, ~~his~~the audit findings are set forth in the Report of Field Audit, (Form ~~BTBOE-414-A~~), or Field Billing Order, (Form ~~BTBOE-414-B~~). There are instances in which changes to the original recommendations may be ordered by the proper authority because of additional information furnished. This information at times is supplied by the taxpayer in connection with ~~his~~a protest of the audit findings or it may already be contained in the working papers. Resulting adjustments are set forth in revised audit reports or reaudit reports and revised or adjusted field billing orders.

ADMINISTRATIVE PROCEDURES ON ADJUSTMENTS

0701.10

A number of steps are available to a taxpayer to make known their position on items questioned by the auditor. The administrative procedures to protest an audit recommendation or to appeal a Notice of Determination are listed below in the order they will normally be pursued by the taxpayer:

- a) 1) Consultation with the auditor.
 - 1) • During the audit.
 - 2) • After completion of the audit.
- a) 2) Consultation with the auditor's ~~field~~immediate supervisor.
- b) 3) Discussion ~~before~~with a local Board representative.
- e) 4) Petition for redetermination.
 - 1) • ~~1-~~ Furnishing additional records, documents or evidence to District or Headquarters staff.
 - 2) • Conference with an attorney or supervising tax auditor from the Appeals Section. ~~2- Hearing before Board hearing officer.~~
 - 3) • ~~3-~~ Hearing before the Board of Equalization Members.
- 5) e) Payment and claim for refund.
- 6) Litigation or Legal ~~f) Court a~~ Action.

It is not ~~necessarily~~ required that a taxpayer use all of the available appeal procedures. A protest may be resolved or terminated at any level.

EXHIBIT 2

(Cont.) 0701.10

Depending upon the level at which an adjustment is substantiated or ordered, the change may be made in the original audit, a revised audit, or a reaudit report. Required changes at Steps (~~1a~~) and (~~2b~~) will be incorporated in the original audit report, ~~or~~ field determination or field billing order. Adjustments at Step (~~e3~~) will result from office discussions with the taxpayer resulting from responses to the Form ~~BT~~BOE-79-A, Audit Transmittal Letter – Taxpayer Disagrees – 10 Days to Respond, and will be submitted on a revised audit or a revised field billing order.

Recommended adjustments and changes at Steps (~~d4~~), (~~e5~~), and (~~f6~~) will be submitted as reaudit reports or adjusted field billing orders.

DISTINCTION BETWEEN REAUDITS AND REVISED AUDIT REPORTS

0702.00

REVISED AUDIT DEFINED

0702.05

A revised audit ~~refers to~~ is defined as a Form ~~BTBOE-414-A which has been revised by that~~ the auditor revised after the taxpayer received ~~Form BT-414~~ the computer-generated copy of the Report of Field Audit but prior to the complete processing of the audit and final approval by the Centralized Review Section ~~issuance of a determination or refund notice to the taxpayer.~~

REAUDIT DEFINED

0702.10

A reaudit ~~may be~~ is defined as an audit of a period that has been previously audited and for which a Notice of Determination or Notice of Refund was issued.

REVISED FIELD BILLING ORDER DEFINED

0702.15

A revised field billing order is defined as a Form ~~BTBOE-414-B~~ which has been revised by the district after the taxpayer has received the computer-generated copy of the Form BT-414 BT-field billing order but prior to the complete processing of the field billing order and final approval by the Centralized Review Section ~~issuance of a determination or refund.~~

ADJUSTED FIELD BILLING ORDER DEFINED

0702.20

An adjusted field billing order is defined as a district recommendation for the adjustment ~~or cancellation~~ of amounts previously determined based on recommendations submitted on Forms ~~BT-10 or BTBOE-414-B~~ for which either a Notice of Determination or a Notice of Refund has been issued.

“Adjusted field billing orders” will be prepared in accordance with procedures set forth for reaudits except that the district's report will be submitted on Form ~~BTBOE-414-B~~ and labeled “ADJUSTED FBO.” (See Exhibit 7) ~~Such “Adjusted FBO” recommendations need not be typed (See Exhibits 15 and 16.)~~

ADJUSTMENT OR CANCELLATION OF FIELD BILLING ORDER BY AUDIT 0702.23

~~In those cases where a field billing order reflecting an estimated determination has been prepared and transmitted and records are subsequently made available enabling the Board to make a complete audit, a regular audit report should be prepared. The audit report, including the period covered by the field billing order, should be transmitted as an original report on Form BT-482, Transmittal of Audit Reports.~~

~~If the estimated determination is not final at the time the records are presented for audit, the taxpayer should be advised to file a petition for redetermination in order to avoid additional penalty~~

~~If the estimated determination has become final, the ten percent finality penalty will apply to the adjusted tax liability, and the taxpayer should be so advised (See Exhibits 17 and 18.)~~

EXHIBIT 2

(Cont.) 0702.23

~~A comment should be made in the lower portion of the front of the audit report, Form BT 414-A, as follows:~~

~~"This audit report supersedes field billing order dated _____"~~

~~Upon receipt of the audit report in headquarters, the processing will be as follows:~~

~~(a) Since the estimated determination resulting from the Form BT 414-B represents a valid determination, it cannot be canceled in its entirety and a new determination issued for the corrected liability recommended by audit. Therefore, for billing purposes, the audit report will be handled in headquarters in the same manner as a reaudit and will serve as the basis for adjustment of the estimated determination.~~

REAUDITS AND ADJUSTMENTS APPROVED BY BOARD

0702.25

The law provides that a taxpayer against whom a determination was made may petition for a redetermination. A p~~P~~etitions for redeterminations, late protests, claims for refund or similar action by a taxpayers may result in the preparation of a reaudits or an adjusted field billing orders. Reaudit and adjustment recommendations which decrease the proposed determination in excess of \$50,000 in tax must be presented to our~~the~~ Board ~~and to the State Board of Control~~ for approval. Increases to non-final determinations are controlled by Revenue and Taxation Code section 6563. Increases to determinations which are final require the issuance of a new determination for periods which have not expired due to the statute of limitations. Therefore, instructions in this chapter should be followed closely so that reaudit reports or adjusted field billing orders will be prepared uniformly in the manner best suited for review by those who must approve them.

TRANSMITTAL AND PROCESSING OF ADJUSTED REPORTS

0702.30

Revised audit reports should be included in the regular audit transmittal as original audit items. ~~Revised audit reports should not be transmitted with reaudit reports or adjusted field billing orders. Reaudit reports and adjusted field billing orders may be combined on one Form BT 482, Transmittal of Audit Reports, provided they pertain to the same tax program should be transmitted separately.~~

Headquarters review and processing of revised audit reports is the responsibility of the ~~Audit Review~~Centralized Review Section. ~~and Refund Unit~~ Centralized Review is also responsible for the preliminary review of all reaudits and adjusted field billing orders. ~~while~~ ~~†The Petitions Section Unit~~ is responsible for the final reviewing and processing of reaudit reports involving petitions for redetermination, and late protests, and claims for refund accompanying related petitioned cases. Replies to any headquarters request for additional information, or further investigation, should be made directly to the ~~unit~~section involved as soon as possible to ensure prompt and efficient handling of all petitions for redetermination and claims for refund.

SOURCE OF REAUDITS**0703.00****PROTEST OF ORIGINAL AUDIT FINDINGS****0703.05**

For the most part, reaudits ~~originate as a result of~~ from the taxpayer's protest of the original audit findings. When this protest is registered by telephone or personal contact, the taxpayer should be requested to ~~express~~ explain the specific basis of protest in writing without delay.

Written protests ~~that which~~ may result in a reaudit fall into the following general categories:

- a) Petition for Redetermination. Received after issuance of Notice of Determination and prior to the date it becomes final (30 days after Notice). Note that a petition received prior to the Notice of Determination will not be accepted as a valid petition for redetermination. In this case, the taxpayer should be informed to file their petition after the Notice of Determination has been received. In the case of split audit periods or billings (e.g. phone billing for a period expiring under statute), the taxpayer should be informed that it is necessary to file separate petitions for redetermination for each Notice of Determination. This would also include Notices of Determination with respect to dual determinations.
- b) Claim for Refund. Received after the determination becomes final and is paid.
- c) Late Protest. Received after the determination has become final, but is not paid.

When petitions for redetermination, late protests, or claims for refund are received in the district from taxpayers, the original documents, including the envelope in which they were received, will be forwarded to the appropriate headquarters ~~section~~ unit without delay, together with any supplementary information or district recommendations.

HEADQUARTERS RESPONSIBILITY**0703.10**

Control of petitions for redetermination and late protests, establishment of petition files, and initiation of action to withhold collection rests with the Headquarters Petitions ~~Section~~ Unit. The Headquarters ~~Audit Review and Refund Section~~ Unit controls claims for refund.

When petitions for redetermination, late protests, or claims for refund are received in headquarters, either directly from the taxpayer or from the district, the appropriate ~~unit~~ section will send an acknowledgment to the taxpayer or ~~his~~ the taxpayer's representative with a copy to the district office involved. If further information is needed from the district, the request ~~therefor~~ will be made on the district copy.

A request for reaudit may originate in headquarters by reason of correspondence with the taxpayer, a review of the case by the Petitions Section, or by a recommendation by the Appeals Section. ~~or hearings on petitions for redetermination.~~ In such cases, headquarters will write ~~to the district~~ or submit a hearing report (e.g., Decision and Recommendation) to the district, outlining the taxpayer's contentions, commenting on matters relevant to the points at issue, and recommending that a reaudit be made.

EXHIBIT 2

DISTRICT RESPONSIBILITY

0703.15

In certain instances, reaudits ~~will~~ may originate in a district since information indicating the need ~~therefor~~ may for adjustment is sometimes received by ~~first be available in~~ the district. If, in the opinion of the proper district authority, a reaudit is required in a particular case, it will not be necessary to first ~~to~~ obtain authorization from headquarters. However, a ~~the original petition~~ letter should be forwarded to the Headquarters Petitions Section Unit with a memo explaining that a reaudit action is in process, and the reasons or basis therefor. When the reaudit is initiated by the district before the determination becomes final, a petition for redetermination must be secured and immediately forwarded to the Headquarters Petitions Section Unit.

Where the matter is referred to the district by a footnote on the district copy of headquarters' petition acknowledgment letter requesting a recommendation, a reaudit may also originate in the district. In such cases, the proper district authority must authorize the reaudit.

CREDITS IN REAUDITS WHEN DETERMINATION IS FINAL

0703.20

If a determination becomes final, a refund of any overpayment(s) disclosed as the result of a reaudit may be barred by the running of the Statute of Limitations. Accordingly, in a reaudit of an account where such a determination has been fully or partially paid before completion of a reaudit recommending a downward revision in the measure of tax, the auditor should secure a claim for refund as soon as possible to cover any resulting overpayment and make an appropriate entry on Form BOE-624, Assignment Activity Record.

CREDITS IN REAUDITS WHEN DETERMINATION IS NOT FINAL

0703.25

If a determination has not become final (e.g., petitioned liability) and a reaudit indicates there is a credit measure either for any individual item or in any period not originally covered by a claim for refund, a claim for refund should be immediately secured from the taxpayer and an appropriate entry documenting the potential credit and claim should be made on form BOE-624.

SPECIAL CONSIDERATIONS ON A REAUDIT ASSIGNMENT 0704.00**PRIORITY OF REAUDIT ASSIGNMENTS 0704.05**

Every effort should be made to complete reaudit assignments promptly. ~~The auditor to whom such assignments are made,~~ All auditors receiving reaudit assignments (normally the auditor who made the original audit) *should give such assignments priority over routine work.*

EXTENT OF WORK ON REAUDITS 0704.10

The extent of reaudit work will vary according to the circumstances. For example, a thorough examination must be made where a different method is being used to calculate total sales; in other instances, it may only be necessary to conduct a brief examination, such as inspecting a contract to determine the place where title ~~to personalty~~ passed. In any situation where the auditor is in doubt, the auditor ~~he~~ should consult with the ~~his~~ auditor's supervisor.

Auditors should review the Decision & Recommendation (D&R) or Report of Discussion for areas authorized for adjustment. In some instances, it may be necessary, obtain a supplemental D&R or Report of Discussion for changes not previously authorized.

REAUDIT FOR SAME PERIOD AS ORIGINAL AUDIT 0704.15

A reaudit *must* cover exactly the same period as the original audit report. A *separate report will be prepared* when an audit of another period is made in conjunction with a reaudit.

ORIGINAL AUDIT PAPERS TO BE UNCHANGED 0704.20

It should be emphasized that all papers prepared in the original audit *must be retained unchanged*, except that the face of the original audit report form should be marked "Superseded by Reaudit dated _____ of (date) _____." (See Exhibit 36)

ASSIGNMENT ACTIVITY RECORD (FORM BOE-624 A & B) 0704.25

Immediately upon receiving a petition or claim for refund case in the district which necessitates a reaudit, the respective District Principal Auditor or District Compliance Supervisor, as appropriate, shall initiate preparation of an Assignment Activity Record (BOE--624 A & B). The first date/activity reflected on this report should correspond to the date the case was charged to the district. Once initiated, the Assignment Activity Record shall be maintained to provide a chronology of activity/significant events during the course of processing. Supervisors shall continue to monitor progress on these assignments to ensure proper handling and recognition of priority. In addition, District Administrators shall follow-up with their Principal Auditors on a monthly basis to review the progress in processing these cases.

EXHIBIT 2

(Cont.) 0704.25

Established threshold levels (Section 0221.15) apply only to assignments originating in the districts. They do not apply to petition or claim for refund cases received by districts from either the Petitions Section or Refund Section. Districts will continue to follow both the Petitions Section's and the Refund Section's established procedures and response times for submitting assignments and status reports to these headquarters sections. If the Petitions Section receives a petition for redetermination and requests that the district investigate the taxpayer's contentions, the district is generally allowed 60 days to complete the assignment (90 days for the Out-of-State District). District management should utilize the Assignment Activity Records to ensure timely processing. When a district receives a request for a status report from the Petitions Section, it will attach a current copy of the Assignment Activity Report for that case to the status report. The Assignment Activity Report will accompany, but not replace, the information normally provided on status reports (i.e. what has been done, what remains to be done, and a reasonable estimated completion date).

If the Refund Section sends an assignment to a district for investigation, the district is generally allowed six months to complete the assignment or provide a status report to the Refund Section. District management should use the Assignment Activity Record to ensure timely processing. When a district receives a request for a status report from the Refund Section, it will attach a current copy of the Assignment Activity Record for that case to the status report. The Assignment Activity Report will accompany, but not replace, the information normally provided on status reports (i.e. what has been done, what remains to be done, and a reasonable estimated completion date).

Assignment Activity Records accompanying second requests for a status report will be accumulated by either the Petitions Section or the Refund Section, as appropriate, and forwarded monthly to the Chief of Field Operations for review. Assignment Activity Records for any cases requiring subsequent follow-ups will also be forwarded to the Chief of Field Operations.

In further recognition of the importance of processing Petitions and Claims on a priority basis, cases should be prioritized based on the age of the periods involved.

USE OF FORM BOE-419--AUDIT ASSIGNMENT CARD 0704.25

~~A Form BOE-419 is prepared in the district or subdistrict office to control the reaudit assignment. The word "Reaudit" is typed or noted in the "Reason for Request" box on the form. Whenever an audit covering additional periods is made in conjunction with the reaudit another Form BOE-419 is prepared for the added periods~~

ARRANGEMENT OF COMPLETED REAUDITS AND ADJUSTED FIELD BILLING ORDERS 0704.30

The documents constituting the field reaudit report and adjusted field billing order will be fastened together at the upper left-hand corner in the order shown in the following table. Reaudits and adjusted field billing orders transmitted to Headquarters Centralized Review Section should be broken down into three basic components:

- 1) "Headquarters Packet" that will be forwarded for appropriate billing and distribution. This packet should contain original documents (when available) and be attached to the top of the "Audit Packet" for each individual audit.

EXHIBIT 2

(Cont.) 0704.30

- 2) “Audit Packet” that will be returned to the district after processing.
- 3) “Original Audit Packet” that includes all original audit working papers unchanged.

Note that not all forms will be used with every audit. Inapplicable forms may be disregarded

<u>HEADQUARTERS PACKET</u>		
<u>Form:</u>	<u>Description:</u>	<u>Comments:</u>
<u>System-Generated Reaudit Report</u>	<u>Reaudit Report</u>	<u>Mark “HQ” in red in lower RH corner. Includes R414-A1- Tax, Interest and Penalty.</u>
<u>BT-197</u>	<u>Cooperative Hours</u>	
<u>R414-A, pg. 2</u>	<u>Discussion of Reaudit Findings</u>	<u>Separate typed schedule</u>
<u>R414-A2</u>	<u>Reconciliation & Explanation of Reaudit Adjustments</u>	
<u>BOE-836-A/B</u>	<u>Results of Discussion</u>	
<u>None</u>	<u>Taxpayer’s Petition</u>	
<u>D & R</u>	<u>Decision and Recommendation</u>	
<u>BOE-101</u>	<u>Claim for Refund</u>	<u>Expiring periods and net refunds</u>
<u>21-G4</u>	<u>Sales Tax Paid to SG Sellers</u>	<u>MVF Adjustments</u>
<u>BOE 414-L</u>	<u>Local Tax Allocation</u>	
<u>BOE-526</u>	<u>Managed Audit Program Participation Agreement</u>	
<u>BOE-1151</u>	<u>Statistical Sampling Form</u>	

<u>AUDIT PACKET</u>		
<u>Form:</u>	<u>Description:</u>	<u>Comments:</u>
<u>System Generated Reaudit Report</u>	<u>Reaudit Report</u>	<u>BOE-414-C goes after BOE-89 letter in “no change” audits. Includes R-414-A1 – Tax, Interest and Penalty</u>
<u>BT-197</u>	<u>Cooperative Hours</u>	
<u>BOE-89 (A, B, C, etc.)</u>	<u>Letter to Taxpayer</u>	

EXHIBIT 2

(Cont.) 0704.30

<u>AUDIT PACKET (Cont.)</u>		
<u>Form:</u>	<u>Description:</u>	<u>Comments:</u>
<u>R414-A, pg. 2</u>	<u>Discussion of Audit Findings</u>	<u>Separate typed schedule</u>
<u>DIF-DA</u>	<u>Audit Payment Information</u>	
<u>R414-A2</u>	<u>Reconciliation & Explanation of Reaudit Adjustments</u>	
<u>BOE-836-A/B</u>	<u>Results of Discussion</u>	
<u>None</u>	<u>Taxpayer's Petition</u>	
<u>D & R</u>	<u>Decision and Recommendation</u>	
<u>BOE-101</u>	<u>Claim for Refund</u>	<u>Expiring periods and net refunds</u>
<u>21-G4</u>	<u>Sales Tax Paid to SG Sellers</u>	<u>MVF Adjustments</u>
<u>BOE 414-L</u>	<u>Local Tax Allocation</u>	
<u>BOE-526</u>	<u>Managed Audit Program Participation Agreement</u>	
<u>BOE-495</u>	<u>Index</u>	<u>For ALL Audits</u>
<u>R12, etc</u>	<u>Reaudit Working Papers</u>	<u>Arrange in numerical sequence</u>
<u>Memo</u>	<u>Memos & Superseded Schedules</u>	
<u>BOE-624-A/B</u>	<u>Assignment Activity Record</u>	<u>Always Last Attachment</u>

<u>ORIGINAL AUDIT PACKET</u>

PREPARATION OF FORMS FOR REAUDITS OR ADJUSTED FIELD BILLING ORDERS

0705.00

REAUDIT REPORT DEFINED

0705.05

The term "reaudit report" refers to the report submitted by the district to headquarters. It normally will consist of the appropriate system generated Report of Field Audit - Reaudit form (typed BT 414-E report) and Form BT 414-A Sales Tax Calculation Summary showing the quarterly or monthly tax, interest, and penalty. In addition, the reaudit report sent to headquarters will include schedules reconciling the reaudit findings with the measure of tax determined in the original audit, prior revised audit, or prior reaudit, together with the auditor's comments supporting the recommended adjustments. Documents necessary to support the recommended adjustments may ~~shall~~ also be included. Supporting work papers detailing the reaudit adjustments should be retained in the district ~~or subdistrict~~ after they are returned by the Centralized Review Section or the Petitions Section.

ADJUSTED REPORT DEFINED

0705.07

The term "adjusted report" refers to the report submitted by the district to headquarters. It normally will consist of the Form BTBOE-414-B (~~Forms BT 414-B will be used when adjusting Forms BT 10~~) and schedules reconciling the differences between the original recommendation and the adjusted recommendation. Subsidiary schedules similar to those described in Section 0705.05 ~~may~~ shall be included.

COMPLETION OF FORM BOE-414-B

0705.08

When preparing Form BOE-414-B, the word "ADJUSTED" *should be written in red at the top of the preliminary report* ~~immediately above "Department of Business Taxes"~~. Also, the notation, "This Adjusted Field Billing Order supersedes Field Billing Order dated _____" ~~or "This supersedes Field Determination dated _____"~~ *should be written in the lower portion of the front of the form.* (See Exhibit 745) Since Form BTBOE-414-B is similar to Form BTBOE-414-A, *the instructions given for the preparation of Form BTBOE-414-A apply when applicable to similar items on Form BTBOE-414-B.*

FRONT OF FORM BTBOE-414-A AND BT-414-E

0705.10

The front of the reaudit report form will be prepared in the same manner as for regular audit reports. Even when the measure of tax from the original audit is reduced to zero, all category descriptions and items numbers from the original audit must be shown as part of the reaudit. This will facilitate the automated reconciliation of measure of tax between the original and reaudit by non-compliance code. (See Exhibit 1.)

EXHIBIT 2

(Cont.) 0705.10

~~When preparing the front of the audit report form, the word "REAUDIT" should be written in red immediately above "Department of Business Taxes". When typing Form BT 414 E, "Reaudit" should be capitalized and underlined. In addition, The word "REAUDIT" should be written in red at the top of the preliminary report. The notation "This reaudit supersedes audit dated _____ of (date)" should be written in the lower portion of the form. When it is necessary to make an additional reaudit, the notation "This (second) reaudit supersedes (first) reaudit of (date) dated _____" will be written in the lower portion of the form. (See Section 0709.10 for revised audit notation.)~~

~~Except as indicated in Sections 0705.25 through 0705.40, the front of the reaudit report form will be prepared in the same manner as for regular audit reports. (See Exhibit 1.)~~

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION 0705.25

~~There are three basic headings which are to be shown in this section of the audit report when disclosing reaudit findings.~~

- ~~a) Measure of Tax per Original Audit.~~
- ~~b) Reaudit Adjustment.~~
- ~~c) Measure of Tax per Reaudit.~~

REAUDIT ADJUSTMENT 0705.30

~~The adjustment(s) disclosed by the reaudit will be explained concisely under this heading. The nature and extent of the explanatory information will be governed by the particular class of transactions involved as well as the number of adjustments being recommended.~~

~~When only one item or class of transactions is being adjusted, a brief explanation of the reduction or allowance made in the reaudit is to be shown under this heading. When two or more classes of transactions are being adjusted only the categories involved are to be listed under this heading. Detailed explanations of the reaudit adjustments will be made on the "Reconciliation and Explanation of Reaudit Adjustments" schedule. (See Section 0707.05.)~~

EFFECT TO BE GIVEN TO PAYMENTS OR CREDITS 0705.35

~~As in the case of an original audit, effect is to be given to any known payments or credits when computing interest. Such amounts may be in the form of payments on account, the application of a cash deposit or a combination of these items and are to be shown on the front of the audit form following the heading "Less".~~

ALLOCATION OF PAYMENTS 0705.40

~~Where a payment has been received which pays a determination in full, including interest and penalty, the payment should be shown on the face of the reaudit, in the same amounts as determined, that is, tax, interest and penalty. Thus the reaudit report would indicate that there has been an overpayment of tax, interest and penalty, rather than an overpayment of tax. (See Exhibit 18.) Credit interest should be allowed on tax only. In the event of a partial payment, in absence of evidence to the contrary, the payment should be applied first to the tax.~~

EXHIBIT 2

(Cont.) 0705.40

Where partial or multiple payments have been made and proper distribution of payment(s) to tax, interest and penalty cannot be ascertained when preparing the reaudit report, show the payment(s) in the "Total" column and omit "Balance" totals for tax, interest and penalty. (See Exhibit 17) When the reaudit report is received in headquarters, the payment(s) will be spread to tax, interest and penalty and the "Balance" line completed.

COMPUTATION OF INTEREST

0705.45

Interest should be computed in accordance with Chapter 2 Section 0217.00. ~~Where negligence or fraud is involved, no credit interest is allowed at the time the determination is made. However, interest is accrued on the determination on the net tax due, once the determination has been made. In preparing a reaudit, where negligence or fraud is involved, interest should be computed on credits for the number of months from the date of the original determination to the current interest date.~~

BACK OF FORM BOE-414-A

0705.50

Except for the "General Comments" section, the back of the audit report form will be completed according to instructions in Chapter 2 Section 0205.00 and as noted in the following two sections (0705.55 & 0705.60).

REAUDIT HOURS

0705.55

The space for "No. of Hours" should show reaudit time only. Hours spent on the original audit should not be included.

FURNISHING COPIES OF REAUDIT REPORTS TO TAXPAYERS

0705.60

A copy of the system generated reaudit report, ~~Form BT-414-E~~, will be mailed to the taxpayer after the reaudit has been reviewed completed by ~~in~~ the district. In addition, as indicated in Section 0707.05, a copy of the "Reconciliation and Explanation of Reaudit Adjustments" schedule will be sent to the taxpayer. Additionally, the taxpayer should be provided copies of all reaudit schedules, and they should be clearly marked "copy provided/sent to taxpayer on (date)."

In most cases, one of the following BOE-89 series form letters should be used for transmitting copies of reaudits or adjusted field billing orders to taxpayers or their representatives:

SITUATION	TRUE PETITION, CLAIM FOR REFUND, OR LATE PROTEST ACCEPTED BY HQ	LATE PROTEST NOT ACCEPTED BY HEADQUARTERS
District wants taxpayer to reply to them rather than headquarters in the event of further protest	BOE-89-A	BOE-89-A1
Taxpayer disagrees and wants a conference	BOE-89-B	BOE-89-F

EXHIBIT 2

(Cont.) 0705.60

SITUATION	TRUE PETITION, CLAIM FOR REFUND, OR LATE PROTEST ACCEPTED BY HQ	LATE PROTEST NOT ACCEPTED BY HEADQUARTERS
Taxpayer disagrees and does not want a conference	BOE-89-E	BOE-89-F
Taxpayer concurs and a conference is not desired	BOE-89-C	BOE-89-C1
Taxpayer is noncommittal or the results were not discussed	BOE-89-D	BOE-89-F
Adjustment results in an increase in sum of tax and penalty over amount originally determined	BOE-89-E	BOE-89-E
Reaudit prepared pursuant to instruction in the Decision and Recommendation	BOE-89-G	N/A

If one of the above Form BOE-89 letters is not appropriate, then a “special” transmittal letter should be sent to the taxpayer and should cover the following areas:

- Confirmation of the district's understanding of whether or not the taxpayer concurs ~~in~~ with the recommendation.
- If the taxpayer's position is unknown, or a discussion could not be held, they ~~taxpayer~~ should be advised to notify headquarters of their position by a specific date if they taxpayer does ~~do~~ not concur ~~in~~ with the recommendation.
- The taxpayer should be advised that the recommendation is subject to headquarters review. The type of Form BOE-89 letter to be used to mail the report should be shown on the back of the Form ~~BT~~BOE-414-A or ~~BT~~BOE-414-B. A copy of the transmittal letter sent to the taxpayer should be attached to the reaudit when it is transmitted to headquarters.

FURNISHING COPIES OF REPORTS TO TAXPAYER'S REPRESENTATIVE 0705.65

A copy of the reaudit report, ~~audit report superseding a field billing order~~, or adjusted field billing order will be furnished to the taxpayer's representative (attorney, accountant, etc.) in all petition, protest and claim for refund cases. Appropriate mailing instructions should appear at the bottom of the face of ~~the~~ Form ~~BT~~BOE-414-A or ~~BT~~BOE-414-B, including the representative's TIN (Taxpayer Identification Number).

AUDITOR'S COMMENTS ON A REAUDIT**0706.00****TYPES OF COMMENTS****0706.05**

In the space under “General Comments,” it will not be necessary to rewrite the descriptive comments appearing on the original audit report but the reason for the reaudit should be briefly explained. (See ~~Exhibit 2~~). However, reaudits require four different general comments. These general comments, and their acronyms, include:

- Reason for Reaudit (RFR)
- Reference to Authority Authorizing Reaudit (RAA)
- Taxpayer’s Contentions (TPC)
- Reaudit Findings and Related Comments (RFC)

The acronyms are used to identify general comment headings in the processing of the BOE-414-A. A complete list of acronyms can be found on the AUD GC screen.

~~Examples:~~

~~Taxpayer filed a timely petition for redetermination of liability determined (date of Notice of Determination) as recommended by audit dated (date).~~

~~Taxpayer filed a claim for refund of liability determined (date of Notice of Determination) as recommended by audit dated (date of audit).~~

~~Taxpayer filed a late protest objecting to liability determined (date of Notice of Determination) as recommended by audit dated (date).~~

~~In addition there are three other categories of general comments:~~

- ~~(a) Reference to hearing officer's report authorizing the changes.~~
- ~~(b) Taxpayer's Contentions.~~
- ~~(c) Reaudit Findings and Related Comments.[J.W.67]~~

REASON FOR REAUDIT (RFR)**0706.07**

This comment identifies the reason for the reaudit. The taxpayer must request a redetermination of a previously issued Notice of Determination before a reaudit can be ordered. Examples of this comment include:

- Taxpayer filed a timely petition for redetermination of liability determined (date of Notice of Determination) as recommended by audit dated (date).
- Taxpayer filed a claim for refund of liability determined (date of Notice of Determination) as recommended by audit dated (date).

EXHIBIT 2

(Cont.) 0706.07

- Taxpayer filed a late protest objecting to the liability determined (date of Notice of Determination) — as recommended by audit dated (date).

REFERENCE TO AUTHORITY AUTHORIZING REAUDIT (RAA)

0706.10

This comment identifies the authority authorizing the adjustment(s) to be made in the reaudit. In processing the petition, claim for refund, or late protest, the taxpayer may appear before a representative of the Board from the Appeals Section or from the District. An adjustment may be ordered as a result of the discussion. Examples of this comment include:

- Taxpayer discussed the determination with (name of Appeals representative) who ordered changes per Decision and Recommendation dated (date).
- Taxpayer discussed the determination with (name of District representative) who ordered changes per Report of Discussion of Audit Findings dated (date).

REPORT OF HEARING

0706.10

~~In processing the petition, claim for refund or late protest the taxpayer may appear before a hearing officer representative of the Board either from the Appeals Section or from the District. An adjustment may be ordered as a result of the discussion. If this report explains the taxpayer's contentions and the reaudit findings, it will not be necessary for the auditor to comment further on these categories. The standard comments will be~~

~~"Taxpayer discussed the determination with (Hearing Officer Appeals Representative; i.e. Staff Counsel or Supervising Tax Auditor _____, who ordered changes per hearing report Decision and Recommendation~~

~~"Taxpayer discussed determination with District Principal Auditor/Supervising Tax Auditor/Business Tax Specialist I (District Representative) _____, who ordered changes per hearing report Report of Discussion of Audit Findings (BOE 836A/B dated _____ attached".~~

~~It is unnecessary to attach reports prepared by Sacramento Hearing Officers.~~

TAXPAYER'S CONTENTIONS (TPC)

0706.15

This comment identifies the item(s) and reason why the taxpayer does not agree with the Notice of Determination. The taxpayer's contentions are generally the issues discussed before the Appeals or District representative. Examples of this comment include:

- Item (number as shown on the face of the report) – Taxpayer obtained additional XYZ responses from customers and is of the opinion that the amount of disallowed claimed sales for resale should be reduced.
- Penalty – The taxpayer is of the opinion that the negligence penalty for incomplete books and records does not apply. The taxpayer claims the records are complete and can be relied upon for sales and use tax purposes.

EXHIBIT 2

(Cont.) 0706.15

A reaudit may be ordered as a result of a Decision and Recommendation (D&R). If the D&R identifies the taxpayer's contentions, it is not necessary to restate them. However, the Taxpayer's Contentions comment is still required. If this situation exists, the comment should read:

"See attached copy of Decision and Recommendation for taxpayer's contentions."

~~The taxpayer's contentions are itemized and briefly explained under this heading unless already covered by the report of hearing.~~

~~If a new issue not covered in the report of hearing is raised, it should be noted in this section and fully commented upon under Reaudit Findings and Related Comments. (See following section.)~~

REAUDIT FINDINGS AND RELATED COMMENTS (RFC)

0706.20

The auditor's findings, upon investigation of the taxpayer's contentions, should be briefly stated under this heading.

When more than one audit adjustment is found to be in order, the detailed comments explaining the reaudit adjustments should be shown on a Reconciliation and Explanation of Reaudit Adjustments ~~s~~Schedule. (See Section 0707.05.) In such instances, a statement similar to the following will be made under this heading:

"Reaudit adjustments with respect to items 1, 2, and 3 above are explained on schedule R(#)-414-A2." (See sections 0707.15 and 0707.30 regarding numbering either the revision or reaudit.)

If changes are recommended that are not contained in the original Decision and Recommendation or Report of Discussion of Audit Findings (BOE-836-A&B), they must be fully explained. Care should be taken to obtain either a Supplemental Decision and Recommendation or a Supplemental Report of Discussion of Audit Findings Report from the appropriate authority documenting the adjustments allowed.

In addition, appropriate comments should be made by the auditor under this heading regarding those items questioned by the taxpayer but not adjusted in the reaudit.

SPECIFIC COMMENTS

0706.30

Where the auditor's findings cannot be fully explained by means of the standard comments described in the ~~previous foregoing~~ sections, additional comments should be included as required. The auditor ~~must be certain that all questions and issues raised by the taxpayer or headquarters are fully covered, either on the back of the audit report form or on supporting schedules.~~ will provide a title to the additional comment(s) along with the MS1, generic comment, acronym. An example of this type of comment is as follows:

Waiver of Hearing (MS1)

The taxpayer disagrees with the reaudit adjustments and has not previously requested a formal hearing. The taxpayer wishes to waive their right to a formal hearing. A signed BOE 124 Waiver of Hearing has been secured and is attached.

EXHIBIT 2

(Cont.) 0706.30

Care must be taken to ensure that all questions and issues raised by the taxpayer or headquarters are fully covered in the comments area or on supporting schedules.

DISCUSSION OF REAUDIT FINDINGS

AND REFERENCE TO WAIVER OF HEARING FORM

0706.35

Upon completion of the reaudit, the results should be reviewed with the taxpayer in the same manner as would be followed upon completion of an original audit. If the taxpayer is still in disagreement with any portion of the reaudit results, a separate schedule similar to the one used for original audits should be prepared itemizing the taxpayer's contentions and the auditor's position (See Exhibit 6). This schedule should be titled "Results of Discussion of Reaudit Findings." The information on this schedule is used by the Petitions Section in summarizing the protested items.

Whenever the taxpayer is in agreement with the reaudit findings and ~~has~~ had requested a formal hearing before the Board in a timely petition for redetermination, the auditor **must comment** on whether a formal hearing is still desired. The auditor will comment as follows (See Exhibit 1):

"The taxpayer agrees with the reaudit adjustments. Taxpayer wishes to waive their right to a formal hearing that was previously requested." Form BOE 124, Waiver of Hearing on Petition for Redetermination, should be secured and a copy provided to the taxpayer. (See Exhibit 5.)

~~If Form BOE 124 cannot be obtained, the reaudit report should be forwarded to headquarters with an explanation of the reason why it could not be secured. When a Form BOE 124 is secured, the statement "Signed Form BOE 124 is attached" should be shown as the last item on the back of the report form.~~

When a taxpayer, who has filed a timely petition for redetermination, does not agree with the reaudit recommendations and did not request a formal hearing before the Board in the original petition or by subsequent correspondence, the auditor is to determine whether a formal hearing is desired concerning the items of disagreement and then proceed as follows:

- a) If the taxpayer wants a hearing before the Board, a written request should be secured from the taxpayer and forwarded to headquarters with the reaudit. The taxpayer's specific reasons for disputing the reaudit findings should be noted in general on the back of the reaudit report and in detail on the "Results of Discussion of Reaudit Findings" schedule."
- b) If the taxpayer disagrees with the reaudit findings but does not want a formal hearing before the Board, the auditor should so state. In addition, the reason why the taxpayer does not concur should be noted in general on the back of the reaudit report form and in detail on the "Results of Discussion of Reaudit Findings" schedule."
- c) If the taxpayer is noncommittal, or fails to submit a written request for a hearing before the Board at the time of the reaudit, he or she may still be able to request a Board hearing if it is within 30 days of the date of the letter transmitting the Appeals Section's Decision and Recommendation.

DISCUSSION OF REAUDIT FINDINGS BASED UPON A LATE PROTEST 0706.40

A ten percent penalty attaches to all determinations not paid before their finality date unless a timely petition for redetermination has been filed by the taxpayer, or an extension is granted under Section 6459 of the Law. *In a reaudit of an account where an unpaid determination has become final, the auditor ~~will~~**should** advise the taxpayer that in addition to the amount shown to be due by the reaudit report, a finality penalty in an amount equal to ten percent of the unpaid tax recommended in the reaudit will be added by headquarters.* (See Exhibits ~~147 & 18.~~)

EXHIBIT 2

RECONCILIATION WITH ORIGINAL AUDIT

0707.00

RECONCILIATION AND EXPLANATION OF REAUDIT ADJUSTMENTS

0707.05

*In order to reconcile the reaudit findings with the measure of tax determined as the result of the original audit, revised audit, or prior reaudit, a "Reconciliation and Explanation of Reaudit Adjustments" schedule **must be prepared** for every reaudit report with a copy furnished to headquarters and to the taxpayer (Exhibit 24). It will be used by the auditor as a means of summarizing, ~~and reconciling, and explaining~~ the reaudit adjustments. ~~and to develop the quarterly or monthly reaudit figures which are needed to compute the detailed tax, interest and penalty amounts.~~ The auditor's detailed comments explaining the basis for both the reaudit adjustments and those areas protested for which no adjustments are recommended will be shown on the reconciliation schedule.*

SUPPORTING SCHEDULES

0707.15

When the reaudit is complex and many adjustments are necessary, other supporting schedules will be required. These should be grouped and numbered in the same manner as the working papers in the original audit, but with a prefix "R(#)" shown before all schedule numbers. Thus, the first reaudit would use prefix "R1," second reaudit would use prefix "R2," etc. It is to be noted, however, that while the supporting schedules for a reaudit should develop the reaudit adjustments, these adjustments are applied to the original audit differences on the reconciliation schedule [R(#)414-A2- (Exhibit 24)].

Additionally, if any portion of the reaudit liability is based upon either an original or adjusted statistical sample, the auditor will prepare a statistical sample evaluation, both within the audit working papers and also on Schedule BOE-1151. These differences develop the new measure of tax per reaudit, which is shown on the face of the reaudit report. Also, upload schedules need to be prepared for uploading reaudit differences in the system. Once the upload disk is prepared, the schedules should be superseded and placed in the back of the reaudit.

WHERE NO ADJUSTMENT MADE TO ORIGINAL AUDIT FINDINGS

0707.20

If the reaudit develops no basis for adjustment of the original audit findings, it will not be necessary to submit a Report of Field Audit form. *A report should be made to Headquarters-Petitions ~~Unit~~Section in letter form containing the recommendation that no adjustment be made, and setting forth in detail the reason(s) for the recommendation. ~~The time expended by the auditor under these circumstances will be charged to Audit General.~~*

REAUDITS RESULTING IN A "NO-CHANGE" RECOMMENDATION

0707.25

When the original recommendations are canceled in their entirety and the findings reduced to "\$0" in the reaudit, the auditor must submit such recommendations on Form ~~BT~~BOE-414-A rather than on Form ~~BT~~BOE-414-C.

~~However, when preparing the "Liability (Or Credit) Disclosed by Audit" section of the audit report form, the word "None" will be entered in the "Tax" column on the line labeled "Total".~~

MORE THAN ONE REAUDIT**0707.30**

When it is necessary to make ~~an~~ additional reaudits, supporting schedules will be identified with an ~~an~~ prefix of “R1, R2, R3, etc.” (“R1” = first reaudit, “R2” = second reaudit, etc.) depending upon the number of reaudits being performed. (Note: Revised audits should use the prefix (#)R; thus “1R” would be the prefix for the first revised audit, “2R” would be the prefix for the second revised audit, etc.) All supporting schedules should be prefix then-grouped and numbered in the same manner as the original audit. A reconciliation schedule will be prepared to reconcile the reaudit or revision adjustments with the measure established in the ~~initial~~ previous reaudit, revised audit, or original audit.

EXHIBIT 2

SOURCE OF REVISED AUDITS

0708.00

REVISIONS ORIGINATING IN DISTRICTS

0708.05

Revised audits originate in the district office as a result of instructions issued by the proper authority when in ~~their~~ opinion additional information is available to warrant ~~some~~ adjustment(s) to the original audit report. Generally, the information is obtained when the taxpayer responds to the BOE- 79-A letter. As ~~per was pointed out in~~ Section 0702.05, a revised audit is made only if the original audit report has not been completely processed with final approval given by the Centralized Review Section. ~~a notice of determination or refund has not already been issued on the original audit report.~~

REVISIONS ORIGINATING IN HEADQUARTERS

0708.10

At times, after an audit report has been transmitted by the district, information will come to the attention of headquarters that will warrant a change in the findings. When this occurs before final approval ~~a notice of a determination or refund is issued,~~ Headquarters Centralized Audit Review Section and Refund Unit may return the audit report with instructions to prepare a revised audit. ~~In other instances the detail is available in the transmitted original audit report and a revision can be prepared in headquarters without return to the district.~~

PREPARATION OF THE REVISED AUDIT REPORTS**0709.00****STANDARDS TO BE USED****0709.05**

Revised audit reports should be made by the same standards employed in preparing other audit reports. *Assignments should be completed promptly.*

REVISED AUDIT REPORTS**0709.10**

A revised audit report will be submitted to headquarters as though it were an original audit. It will consist in part of the appropriate Report of Field Audit form, the face of which is to be completed in the same manner as a regular audit. However, when measure from the original audit is reduced to zero, all category descriptions and item numbers from the original audit must be shown as part of the revised audit. This will allow the system to reconcile the measure between the original and revised audit by non-compliance code. (See Exhibit 48)

The word "REVISED" should be written in red ~~immediately above~~ at the top of the preliminary report. "Department of Business Taxes" and ~~the~~ The notation, "This revised audit supersedes audit/revised audit #() dated _____" ~~of (date)~~ should be written in the lower portion of the form. (See Section 0705.10.)

The balance of the report transmitted to headquarters will consist of a copy of the original audit report and any schedules or documents already designated for Sacramento, together with the authority for the change such as the district BOE--836-A/B, "Report of Discussion of Audit Findings." The same procedure applies to Revised FBO's.

BACK OF THE FORM BOE-414-A, REVISED AUDIT**0709.15**

The auditor will enter his or her name in the manner provided in Section 0205.0810 and complete all spaces and questions. General comments appearing on the original audit report are not to be repeated. (See Exhibit 49)

AUDIT HOURS**0709.20**

The space for "No. of Hours" should show in **total the hours spent on the original audit as including the hours spent in making the revision.**

GENERAL COMMENTS- REVISED AUDIT REPORT**0709.25**

The auditor will complete this section on the reverse of the Form ~~BT~~BOE-414-A under the caption "Reason For Revised Audit (R4R)" with a minimum of ~~two~~ the following statements:

- a) Reference to the ~~general comments on the original audit report~~ Form BOE-79A letter mailed (dated) and the date of the original audit report.
- b) Reference to Report of ~~Office~~ Discussion of Audit Findings or other authority for change.

Example:

Reason For Revised Audit (R4R)

For general comments refer to attached copy of original audit dated Form BOE-79-A letter mailed 2-4-99.

EXHIBIT 2

(Cont.) 0709.25

See BOE--836-A/B, "Report of Discussion of Audit Findings" attached.

Note: When a revised audit is created in the system, the original audit general comments are retained. Since all the general comments will reprint on the revised audit report, auditors only need to add the comment under caption "Reason For Revised Audit (R4R)" described above without making reference to general comments on the original audit report.

ORIGINAL AUDIT PAPERS TO BE UNCHANGED

0709.30

When preparing a revised audit, *it should be emphasized that all working papers prepared in the original audit must be retained and unchanged. However, the original ~~Form~~ Report of Field Audit and BTBOE-414-A should be marked "Superseded by Revised Audited dated ____".* (See Exhibit ~~642~~)

Any adjustments to the original audit will be shown on a reconciliation schedule similar to that prepared for reaudits. This schedule will be retained with the revised audit work papers. (See Exhibit ~~544~~)

SUPPORTING SCHEDULES

0709.35

If the revision is complex, and many adjustments are necessary, other supporting schedules will be required. These should be identified with an "(#)R" prefix (as previously mentioned in section 0707.30). Prefix "1R" would be for the first revised audit, "2R" for the second revised audit, etc. The revised audit schedules should be ~~then~~ grouped and numbered to conform with the original working papers.

REVISED FIELD BILLING ORDERS

0709.40

The same general instructions and procedures that apply to the completion of revised audit reports apply hereto revised FBOs. ~~Revised FBOs need not be typed.~~

ARRANGEMENT OF COMPLETED REVISED AUDITS AND FBOs

0709.50

Revised audits and FBOs transmitted to Headquarters Centralized Review Section should be broken down into three basic components:

1. "Headquarters Packet" that will be forwarded for appropriate billing and distribution. This packet should contain original documents (when available) and be attached to the top of the "Audit Packet" for each individual audit.
2. "Audit Packet" that will be returned to district after processing.
3. "Original Audit Packet" that includes all original audit working papers unchanged.

Note that not all forms will be used with every audit. Inapplicable forms may be disregarded.

EXHIBIT 2**(Cont.) 0709.50**

<u>HEADQUARTERS PACKET</u>		
<u>Form:</u>	<u>Description:</u>	<u>Comments:</u>
<u>System-Generated Revised Audit Report</u>	<u>Revised Audit Report</u>	<u>Mark “HQ” in red lower right hand corner. Includes 414-A1- Tax, Interest, and Penalty.</u>
<u>BT-197</u>	<u>Cooperative Hours</u>	
<u>414-A, pg. 2</u>	<u>Discussion of Audit Findings</u>	<u>Separate typed schedule</u>
<u>System-Generated Audit Report</u>	<u>Superceded Audit Report</u>	
<u>None</u>	<u>Administrator’s Letter</u>	<u>Fraud or Jeopardy</u>
<u>BOE-836-A/B</u>	<u>Results of Discussion</u>	<u>DPA audit discussion</u>
<u>None</u>	<u>Taxpayer’s Petition</u>	<u>If audit phone billed</u>
<u>BOE-122</u>	<u>Waiver of Limitation</u>	<u>Power of Attorney</u>
<u>BOE-101</u>	<u>Claim for Refund</u>	<u>Expiring periods and net refunds</u>
<u>21-G4</u>	<u>Sales Tax Paid to SG Sellers</u>	<u>MVF Adjustments</u>
<u>FTB</u>	<u>FTB Attachments</u>	<u>System-Generated Report, Transcript, Sch. 12, etc.</u>
<u>BOE-414-L</u>	<u>Local Tax Allocation</u>	
<u>BOE-526</u>	<u>Managed Audit Program Participation Agreement</u>	
<u>BOE-1151</u>	<u>Statistical Sampling Form</u>	

<u>AUDIT PACKET</u>		
<u>Form:</u>	<u>Description:</u>	<u>Comments:</u>
<u>System-Generated Revised Audit Report</u>	<u>Revised Audit Report</u>	<u>BOE-414-C goes after BOE-79 letter in “no change” audits. Includes 414-A1- Tax, Interest, and Penalty.</u>
<u>BT-197</u>	<u>Cooperative Hours</u>	
<u>BOE-79 (C1, etc.)</u>	<u>Letter to Taxpayer</u>	
<u>414-A, pg. 2</u>	<u>Discussion of Audit Findings</u>	<u>Separate typed schedule</u>

EXHIBIT 2

(Cont.) 0709.50

<u>AUDIT PACKET</u>		
<u>Form:</u>	<u>Description:</u>	<u>Comments:</u>
<u>DIF-DA</u>	<u>Audit Payment Information</u>	
<u>None</u>	<u>Administrator's Letter</u>	<u>Fraud or Jeopardy</u>
<u>BOE-836-A/B</u>	<u>Results of Discussion</u>	<u>DPA audit discussion</u>
<u>None</u>	<u>Taxpayer's Petition</u>	<u>If phone billed</u>
<u>BOE-122</u>	<u>Waiver of Limitation</u>	<u>Power of Attorney</u>
<u>BOE-101</u>	<u>Claim for Refund</u>	<u>Expiring periods and net refunds</u>
<u>21-G4</u>	<u>Sales Tax Paid to SG Sellers</u>	<u>MVF Adjustments</u>
<u>BOE 414-L</u>	<u>Local Tax Allocation</u>	
<u>BOE-526</u>	<u>Managed Audit Program Participation Agreement</u>	
<u>BOE-1151</u>	<u>Statistical Sampling Form</u>	
<u>BOE-495</u>	<u>Index</u>	<u>For ALL Audits</u>
<u>12R, etc</u>	<u>Revised Audit Working Papers</u>	<u>Arrange in numerical sequence</u>
<u>Memo</u>	<u>Memos & Superseded Schedules</u>	
<u>BOE-624-A/B</u>	<u>Assignment Activity Record</u>	<u>Always Last Attachment</u>

<u>ORIGINAL AUDIT PACKET</u>

EXHIBIT 2

TABLE OF EXHIBITS

	Exhibit Number
Sample Sales Tax Reaudit Reports	
Form BTBOE -414-A – Reaudit Report Situation Where Reaudit Adjustment Involves More Than One Class of Transactions	1 & 2
Form BT 414 A1 Schedule Showing Detail Computation of Tax, Interest, Etc.	3
Schedule R 414 A2—Reconciliation and Explanation of Reaudit Adjustments [R(#)-414-A2]	24
Form BT 124—Waiver of Hearing on Petition for Redetermination	5
Form BTBOE -414-A1 – Original Audit	36
Form BT 414 A1 Schedule Showing Detail Computation of Tax, Interest, Etc.	7
Sample Sales Tax Revised Audit Reports	
Form BTBOE -414-A – Revised Audit	48 & 9
Form BT 414 A1—Computation of Tax Interest and Penalty	10
Schedule R 414 A 2—Reconciliation and Explanation of Revision Adjustments [(#)R-414-A2]	544
Form BTBOE -414-A – Original Audit	12 & 13
& Schedule 414-A, Page 2 – Results of Discussion of Audit Findings	644
<u>Sample Specimen-Adjusted Field Billing Order</u>	
Form BTBOE -414-B – Adjusted Field Billing Order	715 & 16
Sample Sales Tax Reaudit Reports—Late Protests/Claims for Refund	
Form BT 414 A—Payment Allocation Unknown	17
Form BT 414 A—Allocation of Payments Known	18

FIRST REAUDIT

STATE BOARD OF EQUALIZATION

REPORT OF
FIELD AUDIT

☒ SALES AND
USE TAXES ☐

SOURCE 1	ACCOUNT NUMBER SR GH 026-725321	CASE ID 23733	STATUS <input checked="" type="checkbox"/> ACTIVE <input type="checkbox"/> C.O.	0-01 1-01
-------------	------------------------------------	------------------	---	--------------

B.A.	2362 Winchester Blvd., Suite 153	DATE OF REPORT September 30, 1999	AREA CODE 43060-038-0002	BUS. CODE 86
FIRM NAME	XYZ Computers	EXTRA COPIES		
OWNER	Megabytes and Gigabytes Inc.			
M.A.	Post Office Box 1527			
	San Jose, CA 95322-1527			

LIABILITY (OR CREDIT) DISCLOSED BY AUDIT

PERIOD 01-01-1996 TO 12-31-1998	TAX	INTEREST TO - 11-30-99	PENALTY * *	TOTAL
TOTAL	11,423.28		1,142.33	
CREDITS/DEBITS:				
BALANCE				

* * Penalty of 10% has been added for negligence.

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION

TAXABLE MEASURE UNDERSTATED
(SEE R1-414-A FRONT, PAGE 2 ATTACHED)

Note: In the case of a late protest, the following notation would be made:
"In addition to the amounts shown, a finality penalty of 10% (\$1,142.33) will be added by Headquarters."

This Reaudit supersedes audit dated 2-19-1999.

N-A	VAR. BLURB	SCHED	I. M. Goode	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE	BATCH
			NAME OF AUDITOR				

FIRST REAUDITBOE-414-A (FRONT) PAGE 2

PERMIT NO. SR GH 026-725321

CASE ID. 23733

AUDITOR: I. M. Goode

DATE OF REPORT: September 30, 1999

<u>TAXABLE MEASURE UNDERSTATED</u>	<u>ERROR CODE</u>	<u>STATE, LOCAL, COUNTY & STTI</u>	<u>SCCT</u>	<u>SCGF</u>
1. Purchases of Fixed Assets from Out-of-State vendors subject to use tax - actual basis.	0201	\$82,987	\$96,988	\$19,852
2. on 5.35% of error as developed by statistical sample.	0201	0	0	0
3. Sales for resale >\$5,000 disallowed - actual basis.	0403	54,313	32,147	0
4. Cost of self-consumed merchandise subject to tax - actual basis.	0202	9,263	9,263	1,241
TOTAL		<u>\$146,563</u>	<u>\$138,398</u>	<u>\$21,093</u>

Form BOE-414-A - Reaudit Report

CHAPTER 7

Exhibit 1

Page 3 of 3

ACCOUNT NUMBER		CASE ID.	
SR	GH	026-725321	23733
I.D.	CLASS	AUDIT MADE BY	HOURS
1234	3	I. M. Goode	8

☐ LEGAL ☐ TAX CLEARANCE

Office Making Audit Code GH
Recovery Group Year 99
Cell 4D Recovery Group Code C
Supervisor: _____
Reviewed By: _____
Date of Review: _____

8.0
TOTAL HOURS

Reported Measure of State Tax - Thousands of \$ 23512
Name and title of taxpayer or representative with whom discussed Mr. Charles L. Pierson, President
Telephone (408) 296-5369

Did he/she concur? Yes A copy of this report was ☐ Furnished ☒ Mailed With BOE-89-C letter. If not, explain below.

If close-out, give name and account no. of successor _____
If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? _____ If so, is waiver attached? ☐ Yes Period _____ Expires _____
☐ No 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? ☐ Yes ☐ No BT-502 prepared? ☐ Yes ☒ No

List other Related accounts None
Have concurrent audits or waivers been made? _____ if not, explain below.
Unverified tax payments (AM 0205.6) _____
Directives (_____) sent (_____) handed to taxpayer _____
Cigarette Indicia Inspection No cigarettes purchased or sold
General Comments:

REASON FOR REAUDIT (RFR):

The taxpayer filed a timely Petition for Redetermination of liability determined March 10, 1999 as recommended by audit dated February 19, 1999.

REFERENCE TO AUTHORITY AUTHORIZING REAUDIT (RAA):

Mr. Charles L. Pierson, President and representative Sylvania L. Bulb, CPA, discussed the determination with Appeals Staff Counsel, J. M. Fisher, who ordered changes per Decision and Recommendation Report dated June 15, 1999.

TAXPAYER'S CONTENTIONS (TPC):

1. All of the supplies included in the test (Audit item 2) were tax-paid to the vendor or directly to the State. Purchase invoices have been located to substantiate that tax was paid to a permitized vendor. Also, the general ledger, sales tax return working papers, and copies of the sales and use tax returns were located to substantiate tax was paid directly to the State.
2. Two of the disallowed resales (Audit item 3) should be allowed based upon XYZ letter responses received since the original audit was completed.
3. The 10% negligence penalty should not apply.

REAUDIT FINDINGS AND RELATED COMMENTS (RFC):

Reaudit adjustments with respect to items #1 and #2 above are explained on Schedule R1-414-A2.
No adjustment was made for item #3, the negligence penalty per the Decision and Recommendation.

WAIVER OF HEARING (MS1):

The taxpayer agrees with the reaudit adjustments. Taxpayer wishes to waive their right to a formal hearing that was previously requested.

DO NOT WRITE BELOW THIS LINE

Reconciliation and Explanation of Reaudit Adjustments [R(#)-414-A2]

CHAPTER 7

Exhibit 2

Megabytes and Gigabytes Inc.
Reconciliation and Explanation of Reaudit
Adjustments
State, Local, County, & STTI

R1-414-A2
SR GH 26-725321
I. Goode
09/27/99

	A	B	C	D	E	F	G	H
		<12>	<R1-12B>	<R1-12C>	(C+D)	(B+E)		
RE	Period	Measure per Original Audit	Adjustments Purchases of Supplies	Disallowed Sales for Resale	Total	Measure of Tax per First Reaudit		
F	1	1Q-96	1,267	-100		-100	1,167	
	2	2Q-96	6,789	-511		-511	6,278	
	3	3Q-96	9,823	-658		-658	9,165	
	4	4Q-96	21,590	-1,112	-9,500	-10,612	10,978	
	5	1Q-97	2,359	-1,120		-1,120	1,239	
	6	2Q-97	16,987	-5,096		-5,096	11,891	
	7	3Q-97	17,800	-498	-15,225	-15,723	2,077	
	8	4Q-97	29,876	-1,234		-1,234	28,642	
	9	1Q-98	10,523	-521		-521	10,002	
	10	2Q-98	18,903	-1,180		-1,180	17,723	
	11	3Q-98	16,506	-592		-592	15,914	
	12	4Q-98	31,769	-282		-282	31,487	
	13		184,192	-12,904	-24,725	-37,629	146,563	
	14					<R1-414-A1>		

Explanation of Reaudit Adjustments

Purchases of Supplies

The taxpayer provided additional purchase invoices substantiating that use tax had been paid to registered out-of-state vendors, which reduced the computed percentage of error and projected measure. Additionally, taxpayer provided their general ledger, sales and use tax working papers and copies of sales and use tax returns to substantiate that tax was paid directly to the State on all remaining items questioned.

Sales for Resale

Two additional XYZ responses were received which indicated that the purchasers had self-assessed the tax on their own returns. This was verified with accounting staff of each firm who returned the XYZ letters.

Note:
Separate pages will be prepared for each
transit tax.

COPY TO TAXPAYER

DATE: _____

STATE BOARD OF EQUALIZATION

REPORT OF
FIELD AUDIT☒ SALES AND
USE TAXES ☐

SOURCE

1

ACCOUNT NUMBER

SR GH 026-725321

CASE
ID

21713

STATUS

☒ ACTIVE☐ C.O.

0-01

1-01

B.A. 2362 Winchester Blvd., Suite 153

DATE OF REPORT

February 19, 1999

AREA CODE

43060-038-0002

BUS. CODE

86

FIRM
NAME XYZ Computers

EXTRA COPIES

OWNER
Megabytes and Gigabytes Inc.M.A.
Post Office Box 1527

San Jose, CA 95322-1527

LIABILITY (OR CREDIT) DISCLOSED BY AUDIT

PERIOD 01-01-1996 TO 12-31-1998	TAX	INTEREST TO - 04-30-99	PENALTY * *	TOTAL
TOTAL	14,231.88		1,423.19	
CREDITS/DEBITS:				
BALANCE				

* * Penalty of 10% has been added for negligence.

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION

TAXABLE MEASURE UNDERSTATED

(SEE 414-A FRONT, PAGE 2 ATTACHED)

Superseded by Reaudit dated 9-30-1999.

N-A	VAR. BLURB	SCHED	I. M. Goode				
			NAME OF AUDITOR	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE	BATCH

BOE-414-A (FRONT) PAGE 2

PERMIT NO. SR GH 026-725321

CASE ID. 21713

AUDITOR: I. M. Goode

DATE OF REPORT: February 19, 1999

<u>TAXABLE MEASURE UNDERSTATED</u>	<u>ERROR CODE</u>	<u>STATE, LOCAL, COUNTY & STTI</u>	<u>SCCT</u>	<u>SCGF</u>	<u>TOTAL TRANSIT</u>
1. Purchases of Fixed Assets from Out-of-State vendors subject to use tax - actual basis.	0201	\$82,987	\$96,988	\$19,852	\$116,840
2. on 7.25% of error as developed by statistical sample.	0201	12,904	13,587	2,514	16,101
3. Sales for resale >\$5,000 disallowed - actual basis.	0403	79,038	32,147	0	32,147
4. Cost of self-consumed merchandise subject to tax - actual basis.	0202	9,263	9,263	1,241	10,504
TOTAL		\$184,192	\$151,985	\$23,607	\$175,592

Form BOE-414-A - Original Audit

CHAPTER 7

Exhibit 3

Page 3 of 3

ACCOUNT NUMBER		CASE ID.	
SR	GH	026-725321	21713
I.D.	CLASS	AUDIT MADE BY	HOURS
1234	3	I. M. Goode	31

☒ LEGAL ☐ TAX CLEARANCE

Office Making Audit Code GH
Recovery Group Year 99
Cell 4D Recovery Group Code C
Supervisor: _____
Reviewed By: _____
Date of Review: _____

31.0
TOTAL HOURS

Reported Measure of State Tax - Thousands of \$ 23512

Name and title of taxpayer or representative with whom discussed Mr. Charles L. Pierson, President
Telephone (408) 296-5369

Did he/she concur? No A copy of this report was ☐ Furnished ☒ Mailed With BOE-79-A letter. If not, explain below.

If close-out, give name and account no. of successor _____

If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? Yes If so, is waiver attached? ☒ Yes Period 1-1-96 to 9-30-96 Expires 01/31/2000

☐ No 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? ☐ Yes ☐ No BT-502 prepared? ☐ Yes ☒ No

List other Related accounts None

Have concurrent audits or waivers been made? _____ if not, explain below.

Unverified tax payments (AM 0205.6) All payments verified.

Directives () sent (x) handed to taxpayer Pamphlets #70 & #76, Regulation 1668

Cigarette Indicia Inspection No cigarettes purchased or sold

General Comments:

TYPE OF BUSINESS ORGANIZATION (TBO):

Corporation. Charles L. Pierson, President; Mary Pierson, Vice-President; Chris Dromedary, Secretary, and David Southgate, Treasurer. Started 1-1-96. No prior audit.

CLASS OF BUSINESS (COB):

One retail store specializing in personal computers and canned software. Minor amount of repair labor and optional warranty contracts. No custom programming.

BOOKS AND RECORDS (BR):

Double entry set of records supported by some original documents such as sales invoices, purchase invoices, cancelled checks, and Federal Income Tax Returns for 1996 and 1997. Books and records were incomplete, as the taxpayer has not been diligent in filing sales invoices and apparently has lost a significant portion. Electronically prepared sales journal appears to be complete, as all pre-numbered sales invoices are accounted for. Not all purchase invoices and cancelled checks were available. Taxpayer has not shown the diligence in keeping records that would be expected of an average prudent business person.

PRESENT FINANCIAL CONDITION (PFC):

Fair. Although the taxpayer suffered operating losses during 1996 and 1997, they seem to be able to pay their bills in a timely fashion and are now operating at a small profit. Bank at Bank of Silicon Valley, Cupertino Branch; account number 124657-98767.

PENALTY (PEN):

A 10% penalty for negligence is recommended. The taxpayer did not maintain the records that would be expected of a prudent business person and the records that were available were in total disarray.

FRANCHISE TAX BOARD (FTB):

N/A

Note:

Results of Discussion comments for this account would be similar in format to Exhibit 6, page 4.

DO NOT WRITE BELOW THIS LINE

FIRST REVISED AUDIT

STATE BOARD OF EQUALIZATION

REPORT OF
FIELD AUDIT

☒ SALES AND
USE TAXES ☐

SOURCE 1	ACCOUNT NUMBER SR KH 028-123456	CASE ID 6341	STATUS <input checked="" type="checkbox"/> ACTIVE <input type="checkbox"/> C.O.	0-01 1-01
-------------	------------------------------------	--------------------	---	--------------

B.A.	18902 Folsom Blvd, #17	DATE OF REPORT February 29, 1999	AREA CODE 22987-023-0002	BUS. CODE 51
FIRM NAME	Nuts & Bolts Plumbing & Hardware	EXTRA COPIES		
OWNER	EFG Enterprises Inc.			
M.A.	Post Office Box 36			
	Sacramento, CA 91211-0036			

LIABILITY (OR CREDIT) DISCLOSED BY AUDIT

PERIOD 01-01-1996 TO 12-31-1998	TAX	INTEREST TO - 04-30-1999	PENALTY * *	TOTAL
TOTAL	4,338.45			
CREDITS/DEBITS:				
BALANCE				

* *

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION

TAXABLE MEASURE UNDERSTATED

(SEE 1R-414-A FRONT, PAGE 2 ATTACHED)

This Revised Audit supersedes audit dated 2-1-1999.

N-A	VAR. BLURB	SCHED	Lisa Carr	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE	BATCH
			NAME OF AUDITOR				

BOE-414-A (FRONT) PAGE 2

PERMIT NO.	<u>SR KH 028-123456</u>
CASE ID.	<u>6341</u>
AUDITOR:	<u>Lisa Carr</u>
DATE OF REPORT:	<u>February 29, 1999</u>

<u>TAXABLE MEASURE UNDERSTATED</u>	<u>ERROR CODE</u>	<u>STATE, LOCAL, COUNTY & STTI</u>	<u>STAT</u>
1. Taxable delivery charges by use of company owned vehicles per test of 2Q-97.	1003	\$8,452	\$8,452
2. Purchases of supplies from out-of-state vendors developed by statistical sample.	0201	13,596	13,596
3. Claimed sales for resale disallowed based upon block sample of May 1996, August 1997, and October 1999.	0401	0	0
4. Cost of material withdrawn form resale inventory and self-consumed based upon taxpayer estimate of \$500 per quarter.	0202	6,000	6,000
5. Taxable sales understated - difference between recorded and reported sales tax per the accrual account.	0302	27,932	27,932
TOTAL		<u>\$55,980</u>	<u>\$55,980</u>

Form BOE-414-A - Revised Audit

CHAPTER 7

Exhibit 4

Page 3 of 3

ACCOUNT NUMBER			CASE ID.
SR	KH	028-123456	6341
I.D.	CLASS	AUDIT MADE BY	HOURS
0656	2	Lisa Carr	44

☐ LEGAL ☐ TAX CLEARANCE

Office Making Audit Code KH
Recovery Group Year 99
Cell 11 Recovery Group Code D
Supervisor: _____
Reviewed By: _____
Date of Review: _____

44.0
TOTAL HOURS

Reported Measure of State Tax - Thousands of \$ 515

Name and title of taxpayer or representative with whom discussed Mr. Charles Smith, President
Telephone (916) 983-9255

Did he/she concur? Yes A copy of this report was ☐ Furnished ☒ Mailed With BOE-79-C letter. If not, explain below.

If close-out, give name and account no. of successor _____

If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? Yes If so, is waiver attached? ☒ Yes Period 1-1-96 to 9-30-96 Expires 01/31/2000
☐ No 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? ☐ Yes ☐ No BT-502 prepared? ☐ Yes ☒ No

List other Related accounts None

Have concurrent audits or waivers been made? _____ if not, explain below.

Unverified tax payments (AM 0205.6) All payments verified.

Directives (_____) sent (x) handed to taxpayer Pamphlets #70 & #76.

Cigarette Indicia Inspection No cigarettes purchased or sold

General Comments:

REASON FOR REVISED AUDIT (R4R):

Form BOE-79-A letter mailed 2-4-99.

In response to the 79-A letter, Mr. Smith discussed the findings of the original audit with District Principal Auditor, Joe Diamond, who ordered changes as set forth in the Report of Discussion of Audit Findings (BOE-836-A & B) dated February 12, 1999 (copy attached).

DO NOT WRITE BELOW THIS LINE

Reconciliation and Explanation of Revision Adjustments [(#)R-414-A2]

CHAPTER 7

Exhibit 5

EFG Enterprises Inc.
Reconciliation and Explanation of Revision
Adjustments
State, Local, County, STTI & STAT

1R-414-A2
SR KH 28-123456
L.C.
02/29/1999

	A	B	C	D	E	F	G	H
		<12>	<1R-12B>	<1R-12C>	(C+D)	(B+E)		
RE	Period	Measure per Original Audit	Adjustments		Total	Measure per First Revised Audit		
F			Taxable Delivery Charges	Disallowed Sales for Resale				
1	1Q-96	4,398	-50	-1,299	-1,349	3,049		
2	2Q-96	9,877	-123	-2,432	-2,555	7,322		
3	3Q-96	6,955	-89	0	-89	6,866		
4	4Q-96	3,987	-76	-159	-235	3,752		
5	1Q-97	4,599	-98	-2,222	-2,320	2,279		
6	2Q-97	9,912	-166	-597	-763	9,149		
7	3Q-97	4,232	-49	-366	-415	3,817		
8	4Q-97	5,876	-106	-882	-988	4,888		
9	1Q-98	3,239	-43	-639	-682	2,557		
10	2Q-98	16,230	-762	-8,659	-9,421	6,809		
11	3Q-98	2,734	-19	-1,239	-1,258	1,476		
12	4Q-98	8,999	-888	-4,095	-4,983	4,016		
13		81,038	-2,469	-22,589	-25,058	55,980		

<1R-414-A1>

Explanation of Revision Adjustments

Taxable Delivery Charges

The taxpayer provided additional freight bills from common carriers which reduced the computed percentage of error and projected measure for delivery charges by their own vehicles.

Sales for Resale

The taxpayer sent and received XYZ letters for all of the originally disallowed sales for resale. They are included in the revised audit working papers.

Penalty

Discussion of the penalty with District Principal Auditor, Joe Diamond, indicated that, while the taxpayer had been careless, they had not actually been negligent in preparing the Sales and Use Tax returns. Mr. Diamond verbally ordered that the penalty not be applied in this case.

Note:

Separate pages will be prepared for each transit tax. No separate pages are required in this instance, as only one (1) district involved and measure for State, Local, County, & STTI are identical.

COPY TO TAXPAYER
DATE: _____

STATE BOARD OF EQUALIZATION

REPORT OF FIELD AUDIT

☒ SALES AND ☐
USE TAXES

SOURCE	ACCOUNT NUMBER	CASE ID	STATUS	
1	SR KH 028-123456	6341	<input checked="" type="checkbox"/> ACTIVE <input type="checkbox"/> C.O.	0-01 1-01

[illegible]**LIABILITY (OR CREDIT) DISCLOSED BY AUDIT**

PERIOD 01-01-1996 TO 12-31-1998	TAX	INTEREST TO - 04-30-1999	PENALTY * *	TOTAL
TOTAL	6,280.44		628.04	
CREDITS/DEBITS:				
BALANCE				

* * Penalty of 10% has been added for negligence.

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION

TAXABLE MEASURE UNDERSTATED

(SEE 414-A FRONT, PAGE 2 ATTACHED)

Superseded by Revised audit dated 2-29-1999.

N-A	VAR. BLURB	SCHED	Lisa Carr				
			NAME OF AUDITOR	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE	BATCH

BOE-414-A (FRONT) PAGE 2PERMIT NO. SR KH 028-123456CASE ID. 6341AUDITOR: Lisa CarrDATE OF REPORT: February 1, 1999

<u>TAXABLE MEASURE UNDERSTATED</u>	<u>ERROR CODE</u>	<u>STATE, LOCAL, COUNTY & STTI</u>	<u>STAT</u>
1. Taxable delivery charges by use of company owned vehicles per test of 2Q-97.	1003	\$10,921	\$10,921
2. Purchases of supplies from out-of state vendors developed by statistical sample.	0201	13,596	13,596
3. Claimed sales for resale disallowed based upon block sample of May 1996, August 1997, and October 1999.	0401	22,589	22,589
4. Cost of material withdrawn from resale inventory and self consumed based upon taxpayer estimate of \$500 per quarter.	0202	6,000	6,000
5. Taxable sales understated - difference between recorded and reported sales tax per the accrual account.	0302	27,932	27,932
TOTAL		<u>\$81,038</u>	<u>\$81,038</u>

Form BOE-414-A - Original Audit

CHAPTER 7

Exhibit 6

Page 3 of 4

ACCOUNT NUMBER		CASE ID.	
SR	KH	028-123456	6341
I.D.	CLASS	AUDIT MADE BY	HOURS
0656	2	Lisa Carr	36

36.0
TOTAL HOURS

☐ LEGAL ☐ TAX CLEARANCE

Office Making Audit Code KH
Recovery Group Year 99
Cell 11 Recovery Group Code D
Supervisor: _____
Reviewed By: _____
Date of Review: _____

Reported Measure of State Tax - Thousands of \$ 515
Name and title of taxpayer or representative with whom discussed Mr. Charles Smith, President
Telephone (916) 983-9255

Did he/she concur? No A copy of this report was ☐ Furnished ☒ Mailed With BOE-79-A letter. If not, explain below.

If close-out, give name and account no. of successor _____
If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? Yes If so, is waiver attached? ☒ Yes Period 1-1-96 to 9-30-96 Expires 01/31/2000
☐ No 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? ☐ Yes ☒ No BT-502 prepared? ☐ Yes ☒ No

List other Related accounts None
Have concurrent audits or waivers been made? _____ if not, explain below.
Unverified tax payments (AM 0205.6) All payments verified.
Directives (_____) sent (x) handed to taxpayer Pamphlets #70 & #76.
Cigarette Indicia Inspection No cigarettes purchased or sold
General Comments:

TYPE OF BUSINESS ORGANIZATION (TBO):

Corporation. Charles Smith, President; Linda Smith, Vice-President; Robert Brown, Secretary; and Susan Brown, Treasurer. Started 1-1-96. No prior audit.

CLASS OF BUSINESS (COB):

Retail store specializing in hard to find hardware such as nuts, bolts, and specialty plumbing. Minor amount of repair labor.

BOOKS AND RECORDS (B&R):

Double entry set of records supported by original source documents, cash register tapes, cancelled checks and Federal Income Tax Returns for 1996, 1997 and 1998. Electronically prepared sales journal was verified to be complete, as all pre-numbered sales invoices are accounted for. Sales Tax reimbursement is added to all taxable sales.

PRESENT FINANCIAL CONDITION (PFC):

Good. The taxpayer maintains a minimum cash balance of \$25,000 and all payables are current. The taxpayer has virtually no competition and demand for their products has been increasing dramatically. Banks at Wells Fargo Bank, Rancho Cordova Branch; account number 124321-236. No collection problem is anticipated.

PENALTY (PEN):

A 10% penalty for negligence is recommended. The taxpayer was careless in preparing the returns as sales tax was billed, collected, and posted to the sales tax accrual account but not reported. The taxpayer made no attempt to reconcile recorded sales tax to reported tax.

FRANCHISE TAX BOARD (FTB):

N/A - Item 5 does not represent additional sales as the additional taxable sales were claimed as exempt labor.

DO NOT WRITE BELOW THIS LINE

414-A BACK PAGE 2 GENERAL COMMENTS

TAXPAYER CONTENTIONS (TPC):

Results of discussion of the audit findings with Mr. Charles Smith, President, are summarized as follows:

<u>Item</u>	<u>Taxpayer</u>	
	<u>Agrees</u>	<u>Disagrees</u>
1.		10,921
2.	13,596	
3.		22,589
4.	6,000	
5.	27,932	
Penalty		\$923.76

TAXPAYER'S POSITION

Item #1. Mr. Smith is of the opinion that delivery charges are not subject to tax. He believes delivery charges are exempt regardless if the delivery is made by a company truck or a UPS truck. Also, he believes the company should be relieved from the tax because he was never informed that deliveries made by company vehicles are subject to tax.

Item #3. Mr. Smith is of the opinion that all claimed sales for resale are properly supported. He believes that a copy of a customer's seller's permit qualifies as a valid resale certificate.

Penalty Mr. Smith believes the company was not careless in preparing returns and that the negligence penalty does not apply. He is of this opinion because the amount of unreported taxable sales are small when compared to reported measure. Also, he believes the penalty should not apply because this is the company's first audit.

AUDITOR'S POSITION

Item #1. Taxing delivery charges for deliveries made by company owned vehicles is established under Regulation 1628 -Transportation Charges. A review of the taxpayer's file indicated that Mr. Smith was provided a copy of Regulation 1628 when he acquired a seller's permit for the corporation.

Item #3. Disallowed resales represent resales where the taxpayer's only support consists of copies of customer's seller's permits. No other documentation for the disallowed resales exist. Copies of customer seller's permits do not qualify as valid resale certificates per Regulation 1668 - Resale Certificates. Mr. Smith was provided "XYZ" questionnaires but he declined to send any to customers.

Penalty Mr. Smith reviewed the general ledger and financial statements monthly. The credit balance of the Sales Tax accrual account increased throughout the entire audit period and no inquiry or reconciliation was made. Also, the accrual account was not used in preparing the sales tax returns.

ADJUSTED

STATE BOARD OF EQUALIZATION

**FILED BILLING
ORDER**
☒ SALES AND
USE TAXES

SOURCE 1	ACCOUNT NUMBER SR AC 097-983126	CASE ID 9031	STATUS <input type="checkbox"/> ACTIVE <input checked="" type="checkbox"/> C.O.	0-01 1-01
DATE OF REPORT July 18, 1999		AREA CODE 19050-036-0001		BUS. CODE 22
FIRM NAME ABC Liquor and Mini-Mart				
OWNER Fred Ainslee				
M.A. Post Office Box 1726				
Van Nuys, CA 90621-1726				

LIABILITY (OR CREDIT) DISCLOSED BY AUDIT

PERIOD 01-01-1996 TO 12-31-1996	TAX	INTEREST TO - 09-30-1999	PENALTY * *	TOTAL
TOTAL	24,918.22		2,491.82	
CREDITS/DEBITS:				
BALANCE				

* * Penalty of 10% has been added for negligence.

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION**TAXABLE MEASURE UNDERSTATED**

(SEE 414-A FRONT, PAGE 2 ATTACHED)

This Adjusted Field Billing Order Supersedes Field Billing Order dated 5-15-1999.

N-A	VAR. BLURB	SCHED	A. M. Wilkinson				
			NAME OF AUDITOR	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE	BATCH

BOE-414-A (FRONT) PAGE 2PERMIT NO. SR AC 097-983126CASE ID. 9031AUDITOR: A. M. WilkinsonDATE OF REPORT July 18, 1999

<u>TAXABLE MEASURE UNDERSTATED</u>	<u>ERROR CODE</u>	<u>STATE, LOCAL, COUNTY & STTI</u>	<u>LACT</u>	<u>LATC</u>
1. Purchase of a refrigeration unit and two computers from Out-of-State vendors subject to use tax - actual basis.	0201	\$298,439	\$298,439	\$298,439
3. Self-consumed taxable items - based upon estimate.	0202	3,600	3,600	3,600
TOTAL		<u>\$302,039</u>	<u>\$302,039</u>	<u>\$302,039</u>

Form BOE-414-B - Adjusted FBO

CHAPTER 7

Exhibit 7

Page 3 of 3

ACCOUNT NUMBER		CASE ID.	
SR	AC	097-983126	9031
I.D.	CLASS	AUDIT MADE BY	HOURS
983	4	A. M. Wilkinson	28

☐ LEGAL ☐ TAX CLEARANCE

Office Making Audit Code AC

Recovery Group Year 99

Cell 17 Recovery Group Code C

Supervisor: _____

Reviewed By: _____

Date of Review: _____

28.0
TOTAL HOURS

Reported Measure of State Tax - Thousands of \$ 256

Name and title of taxpayer or representative with whom discussed Mr. Fred Ainslee, Owner

Telephone (760) 923-1207

Did he/she concur? No A copy of this report was ☐ Furnished ☒ Mailed With BOE-89-B letter. If not, explain below.

If close-out, give name and account no. of successor _____

If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? No If so, is waiver attached? ☒ Yes Period _____ Expires _____

☐ No 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? ☐ Yes ☐ No BT-502 prepared? ☐ Yes ☒ No

List other Related accounts None

Have concurrent audits or waivers been made? _____ if not, explain below.

Unverified tax payments (AM 0205.6) All payments verified.

Directives (_____) sent (x) handed to taxpayer Pamphlets #70 & #76.

Cigarette Indicia Inspection No inspection, as business closed out.

General Comments: _____

REASON FOR ADJUSTMENT (RFA):

In response to the 235-A letter, Mr. Ainslee discussed the findings of the original field billing order with District Principal Auditor, Donald McDonald, who authorized changes as set forth in the Report of Discussion of Audit Findings (BOE-836-A & B) dated July 2, 1999 (copy attached).

ADJUSTMENT FINDINGS & RELATED COMMENTS (AFR):

An adjustment was made to the estimated self-consumed taxable items set up in the original field billing order. The taxpayer provided additional documentation, which reduced the estimate used by the auditor. The taxpayer provided the invoices for the two out-of-state vendors in question to show that he had paid the sales tax. After reviewing the invoices, it was determined that the out-of-state companies did not have a permit with California to collect the sales or use tax. No adjustment was recommended by Mr. McDonald. Mr. Ainslee still believes that an adjustment is warranted on the purchases from the out-of-state vendors and has requested a hearing before the Board.

DO NOT WRITE BELOW THIS LINE